

CITY OF LITCHFIELD, MICHIGAN
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
(with required supplementary information)
YEAR ENDED JUNE 30, 2008

CITY OF LITCHFIELD, MICHIGAN

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Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone: 517/439-9331

FAX 517/439-1891

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Litchfield, Michigan
Litchfield, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Litchfield, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Litchfield Fire Department, a joint venture between the City of Litchfield, Michigan and Litchfield Township, Michigan, which the financial statements reflect the City's total share of assets and revenues constituting one percent of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Litchfield Fire Department, a joint venture between the City of Litchfield, Michigan and Litchfield Township, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Litchfield, Michigan, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2008 on our consideration of City of Litchfield, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparisons information on pages iii through viii and 27 through 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

Hillsdale, Michigan
December 18, 2008

Management's Discussion and Analysis
Year Ended June 30, 2008

The following discussion and analysis of the financial performance for the City of Litchfield (the "City") provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2008:

- For the City as a whole, total liabilities and net assets increased less than 1 percent by \$45,289 over the previous fiscal year.
- City-wide total expenses increased 9.4 percent by \$127,649 and revenues increased 9.2 percent by \$67,113.
- Property taxes are the City's single, largest source of revenue. The City's property tax revenue for fiscal year 2007-2008 was \$365,978 which represents a decrease of \$34,088 or a reduction of 8.5 percent from fiscal year 2006-2007. State-shared revenue, the second largest general revenue source was reduced by the State of Michigan by approximately \$710 this year. This represents a decrease less than 1 percent from the prior year.
- General government represents the City of Litchfield's largest net expense after program revenues increasing 4.8 percent by \$14,591 over last year. Public safety, the second largest City-wide net expense after program revenues, decreased 6.7 percent by \$18,617.

Using the Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

Management's Discussion and Analysis
Year Ended June 30, 2008

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current year in comparison to the prior year:

	Governmental Activities		Business-type Activities	
	2008	2007	2008	2007
Current assets	\$ 814,854	\$ 798,199	\$ 1,501,874	\$ 1,474,117
Capital assets	1,484,522	1,273,310	2,130,272	2,232,517
Other noncurrent assets	53,163	44,959		
Total Assets	\$ 2,352,539	\$ 2,116,468	\$ 3,632,146	\$ 3,706,634
Current liabilities	\$ 212,161	\$ 96,274	\$ 220,434	\$ 157,831
Long-term liabilities	390,397	165,152	550,000	675,000
Total Liabilities	\$ 602,558	\$ 261,426	\$ 770,434	\$ 832,831
Net Assets:				
Invested in capital -				
net of related debt	\$ 1,381,022	\$ 1,273,310	\$ 1,455,272	\$ 1,433,542
Restricted	578	1,446	113,628	99,528
Unrestricted	368,381	580,286	1,292,812	1,340,733
Total Net Assets	\$ 1,749,981	\$ 1,855,042	\$ 2,861,712	\$ 2,873,803
Total Net Assets and Liabilities	\$ 2,352,539	\$ 2,116,468	\$ 3,632,146	\$ 3,706,634

The City's combined net assets decreased by approximately \$117,152 less than 1 percent from a year ago – decreasing from \$4.7 million to \$4.6 million.

Total assets of governmental activities increased 11 percent or \$236,071. This is a net result of total current assets increasing \$16,655, and total other non-current assets increasing \$219,416. The increase in current assets in the amount of \$16,655 is the City's effort to preserve cash resources during the current economic conditions in anticipation of future revenue reduction. The increase in total other non-current assets is primarily due to the purchase of Public Works and Police equipment in the FYE 2008.

Total assets for business type activities decreased 2 percent by \$74,488. This is a net result of total current assets increasing \$27,757 and total non-current assets decreasing \$102,245. The current asset increase of \$27,757 is due to a loan receivable from equipment fund to sewer fund. The total non-current assets decrease of \$102,245 is due to accumulated depreciation on capital assets.

Management's Discussion and Analysis
Year Ended June 30, 2008

The following is the government-wide results of operations for the current fiscal year in comparison to the prior year:

	Governmental Activities <u>2008</u>	Business-type Activities <u>2008</u>	Governmental Activities <u>2007</u>	Business-type Activities <u>2007</u>
Revenue				
Program Revenue:				
Charges for services	\$ 56,315	\$ 335,047	\$ 51,133	\$ 337,247
Operating grants and contributions	249,836	151,567	178,787	152,957
Capital grants and contributions			5,528	
General Revenue:				
Property taxes	365,978		400,066	
State-shared revenues	132,716		133,426	
Interest	33,154	76,807	47,429	59,853
Other	5,155	244	1,358	
Lease revenue	20,651		20,650	
Transfers in	91,819		69,500	
Transfers out		(91,819)		(69,500)
Total Revenue	<u>\$ 955,624</u>	<u>\$ 471,846</u>	<u>\$ 907,877</u>	<u>\$ 480,557</u>
Program Expenses				
General government	\$ 459,106	\$	\$ 378,276	\$
Public safety	287,949		304,884	
Highways and street	53,101		78,667	
Public works	56,884		72,521	
Parks and recreation	98,351		74,357	
Depreciation (unallocated)	39,091		30,355	
Water		169,220		154,111
Sewer		237,528		198,163
Refuse		77,189		59,436
Total Expenses	<u>\$ 994,482</u>	<u>\$ 483,937</u>	<u>\$ 939,060</u>	<u>\$ 411,710</u>
Special Item				
Property tax payment	<u>\$ (66,203)</u>			
	<u>\$ (105,061)</u>	<u>\$ (12,091)</u>	<u>\$ (31,183)</u>	<u>\$ 68,847</u>

Total governmental activities expenses increased 5.9 percent or \$55,422 primarily due to funding long-term pension liability.

Total business type activities expenses increased 17.5 percent or \$72,227 due primarily to funding long-term pension liability, and increasing the cleaning and televising of sewer lines.

Expenses for component units increased \$39,854 primarily as a result of the Tax Increment Finance Authority's efforts to support the downtown streetscape project to promote growth in the industrial park. Any cost to develop residential housing is anticipated to be offset in part by the sale of lots; therefore the cost was capitalized. Industrial park development expenses are not anticipated to be offset by any sales; consequently, the development cost was considered expense.

The increase in operating grants and contributions in the amount of \$69,659 is due primarily to the Tax Increment Finance Authority's contribution to the downtown streetscape project.

Management's Discussion and Analysis
Year Ended June 30, 2008

Total general revenues decreased 4.2 percent by \$28,077 due to increased property tax revenue in the prior year resulting from personal property tax adjustments.

Governmental Activities

Governmental activities include police, fire, streets, public works, parks, recreation, and general government (management, treasurer, clerk, assessing, planning & zoning, etc.). Anything not described as a business-type activity is described as governmental activity.

In fiscal year ending 2008, there were expense increases in all governmental activities primarily due to the funding of long-term pension liability. Revenues decreased due to personal property tax adjustments on previous year's tax rolls resulted in increased revenue received in the fiscal year ending 2007. There has been no increase in the operating millage rate. The City millage rate continues at 13 mills.

Fund balance was reduced in general governmental activities primarily due to funding long-term pension liability.

Business-type Activities

The City's business-type activities consist of the Water, Sewer and Solid Waste Funds. The City operates both Water and Sewer facilities. The Solid Waste Fund includes refuse/recycling collection and brush and leaf pickup. Refuse collection and recycling services are provided by an outside commercial entity. Brush and leaf pickup service is provided by the City of Litchfield's public works department.

Charges for services in the Water, Sewer and Solid Waste Collection operations decreased less than 1 percent, primarily due to the City and Litchfield Township offering separate cleanup day services, thereby eliminating the City's need to charge Litchfield Township for those services. Expenses increased by 19.2 percent primarily due the funding of long-term pension liability, and increasing the cleaning and televising of sewer lines.

The City's Funds

The City's major fund reports follow the government-wide financial statements. The fund financial statements provide detailed information about the significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2008 include the General Fund, Major Street Fund, and Local Street Fund.

General Fund Highlights

The General Fund accounts for all police, fire, public works, planning and zoning, and administrative functions of the City government. The budget is essentially a "maintenance" budget, which means it increases modestly from year-to-year. The budget is monitored closely and amended periodically. The result is that actual revenues and expenses are usually within 5 percent of budgeted amounts.

The General Fund pays for most of the City's governmental services. The most significant are general governmental activities, which incurred expenses of approximately \$459,106 in fiscal year-end 2008. Expenses for general government are recorded in various departments within the General Fund.

Management's Discussion and Analysis
Year Ended June 30, 2008

Capital Asset and Debt Administration

At the end of fiscal year 2008, the City had approximately \$3,668,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, public works equipment, and water and sewer facilities. There is some but not all infrastructure reported in the year-end net capital investment. The City elected to follow the method of prospective reporting of infrastructure assets provided in the GASB 34 reporting pronouncement.

The City continues to pay down debt obligations related to capital investments. Outstanding revenue bonds, for the construction of sewer facilities, reported in the Sewer Fund in the amount of \$550,000 represents 100 percent of the City's total debt obligations at June 30, 2008. Historically, the City's Tax Increment Financing Authority has contributed \$150,000 annually toward the repayment of the debt.

The City also funds equipment replacements by maintaining an Equipment Fund. The Equipment Fund charges City departments for the use of equipment. Monies collected accumulate toward the replacement of equipment. The City properly maintains existing equipment and carefully plans for equipment replacements to avoid burdening taxpayers with additional debt millage to replace existing equipment.

Economic Factors and Next Year's Budgets and Rates

The City of Litchfield's current economic outlook in the short term is stable, thus avoiding any necessity in raising millage rates. A recent adoption in of a MERS benefit change is scheduled to be effective beginning of January 2009. Long-term economic outlook is too unpredictable. The City administration is determined to take necessary steps to maintain surplus cash reserves. Uncertainty in the overall regional economy lends for conservative and cautious budgeting. It is anticipated that the City will see very little or no growth during the next fiscal year. The State of Michigan Budget has indicated that State revenue sharing will remain flat and unchanged from the 2007-2008 levels. However, serious declines witnessed in the overall economy have forced a very cautious approach in the City of Litchfield's cash reserves. Hence, continuous review of all City operations is being conducted.

Through a State of Michigan, Department of Transportation program, the City of Litchfield will participate in Streetscape project. This project will require several City fund accounts to contribute to the City's share of the project. This project is scheduled to be let for bids in February of 2009.

During the 2008-2009 Fiscal Year, certain expenditures are assumed to continue beyond the rate of inflation, such as health care insurance, liability insurance and funding of the City's MERS pension program. Salary and benefits for the City employees is expected to increase. However, contributions from the Tax Increment Finance Authority for economic development services are anticipated to minimize the impact of these increases.

The City of Litchfield has nearly completed certain asset upgrades including electronic telemetry equipment used in both the Water and Wastewater departments. This move will help build better reliability for these systems. The continued effort of water-meter installation will help residents and staff monitor water usage more accurately.

Management's Discussion and Analysis
Year Ended June 30, 2008

Economic Factors and Next Year's Budgets and Rates (concluded)

Energy could have an adverse effect on future budgets. Natural Gas and Electricity prices have risen dramatically over the recent years. In December of 2008, Consumers Energy has filed for an electric rate increase with MPSC. Uncertain gasoline and diesel prices could curtail Police and DPW operations. Conservative budgeting has allowed the City to monetarily prepare for steep increases.

There were no significant variances between budget and actual results.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, or need additional information, or would like to obtain financial statements of the City's component units, Tax Increment Finance Authority (TIFA) or Downtown Development Authority (DDA), we welcome you to contact the City's Administrative office located at 221 Jonesville Street, Litchfield, Michigan 49252.

CITY OF LITCHFIELD, MICHIGAN
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS

JUNE 30, 2008

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS ACTIVITIES	ELIMINATION OF INTERNAL BALANCES	TOTAL
ASSETS				
Current Assets				
Cash and investments	\$ 700,547	\$ 1,312,830	\$	\$ 2,013,377
Accounts receivable	2,285	3,795		6,080
Interest receivable	346	2,405		2,751
Note receivable, current portion				
Land contract receivable, current portion				
Due from other governmental units	109,192	1,812		111,004
Interfund receivable		103,500	(103,500)	
Internal balances		55,551	(55,551)	
Prepaid expense	2,484	48		2,532
Inventory		21,933		21,933
Total Current Assets	\$ 814,854	\$ 1,501,874	\$ (159,051)	\$ 2,157,677
Noncurrent Assets:				
Land contract receivable, net of current portion	\$	\$	\$	\$
Investment in joint venture	53,163			53,163
Investment in land				
Infrastructure development				
Capital assets	2,111,010	6,231,609		8,342,619
Accumulated depreciation	(626,488)	(4,101,337)		(4,727,825)
Total Noncurrent Assets	\$ 1,537,685	\$ 2,130,272	\$	\$ 3,667,957
TOTAL ASSETS	\$ 2,352,539	\$ 3,632,146	\$ (159,051)	\$ 5,825,634
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	\$ 26,295	\$ 23,302	\$	\$ 49,597
Long-term debt, current portion		125,000		125,000
Accrued liabilities	26,815	68,757		95,572
Accrued interest		3,375		3,375
Interfund payable	103,500		(103,500)	
Internal balances	55,551		(55,551)	
Total Current Liabilities	\$ 212,161	\$ 220,434	\$ (159,051)	\$ 273,544
Noncurrent Liabilities:				
Compensated absences	\$ 29,151	\$	\$	\$ 29,151
Pension benefit obligation	361,246			361,246
Long-term debt, net of current portion		550,000		550,000
Total Noncurrent Liabilities	\$ 390,397	\$ 550,000	\$	\$ 940,397
Total Liabilities	\$ 602,558	\$ 770,434	\$ (159,051)	\$ 1,213,941
Net Assets:				
Invested in capital assets, net of related debt	\$ 1,381,022	\$ 1,455,272	\$	\$ 2,836,294
Restricted for bond repayment		113,628		113,628
Restricted for police training	578			578
Unrestricted	368,381	1,292,812		1,661,193
Total Net Assets	\$ 1,749,981	\$ 2,861,712	\$	\$ 4,611,693
TOTAL LIABILITIES AND NET ASSETS	\$ 2,352,539	\$ 3,632,146	\$ (159,051)	\$ 5,825,634

See accompanying notes to the basic financial statements.

COMPONENT UNITS	
TAX INCREMENT FINANCING AUTHORITY	DOWNTOWN DEVELOPMENT AUTHORITY
\$ 2,513,144	\$ 10,647
3,360	
75,000	1,800
<u>\$ 2,591,504</u>	<u>\$ 12,447</u>
\$ 719,085	\$ 2,063
92,035	
972,861	
721,114	
(108,996)	
<u>\$ 2,396,099</u>	<u>\$ 2,063</u>
<u>\$ 4,987,603</u>	<u>\$ 14,510</u>
\$ 68,773	\$ 2,000
<u>\$ 68,773</u>	<u>\$ 2,000</u>
\$	\$
	2,255
<u>\$</u>	<u>\$ 2,255</u>
<u>\$ 68,773</u>	<u>\$ 4,255</u>
\$ 612,118	\$
<u>4,306,712</u>	<u>10,255</u>
<u>\$ 4,918,830</u>	<u>\$ 10,255</u>
<u>\$ 4,987,603</u>	<u>\$ 14,510</u>

CITY OF LITCHFIELD, MICHIGAN
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

		PROGRAM REVENUES	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental Activities			
General government	\$ (459,106)	\$ 36,983	\$ 101,358
Public safety	(287,949)	3,980	25,824
Highways and streets	(53,101)		122,654
Public works	(56,884)	180	
Parks and recreation	(98,351)	15,172	
Depreciation (unallocated) - excludes direct depreciation expense	(39,091)		
Total Governmental Activities	\$ (994,482)	\$ 56,315	\$ 249,836
Business-type Activities			
Sewer Fund	\$ (237,528)	\$ 99,800	\$ 150,000
Water Fund	(169,220)	157,332	1,567
Refuse Fund	(77,189)	77,915	
Total Business-type Activities	\$ (483,937)	\$ 335,047	\$ 151,567
TOTAL PRIMARY GOVERNMENT	\$ (1,478,419)	\$ 391,362	\$ 401,403
COMPONENT UNITS			
Tax Increment Finance Authority	\$ (397,662)	\$	\$
Downtown Development Authority	(6,097)		1,000
TOTAL COMPONENT UNITS	\$ (403,759)	\$	\$ 1,000
GENERAL REVENUES			
Property taxes			
State-shared revenues			
Interest			
Lease revenue			
Other			
TOTAL GENERAL REVENUES			
SPECIAL ITEM AND TRANSFERS			
Transfers			
Property tax payments			
TOTAL SPECIAL ITEM AND TRANSFERS			
CHANGE IN NET ASSETS			
NET ASSETS - BEGINNING OF YEAR			
NET ASSETS - END OF YEAR			

See accompanying notes to the basic financial statements.

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

PRIMARY GOVERNMENT			COMPONENT UNITS	
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	TAX INCREMENT FINANCING AUTHORITY	DOWNTOWN DEVELOPMENT AUTHORITY
\$ (320,765)	\$	\$ (320,765)	\$	\$
(258,145)		(258,145)		
69,553		69,553		
(56,704)		(56,704)		
(83,179)		(83,179)		
(39,091)		(39,091)		
\$ (688,331)	\$	\$ (688,331)	\$	\$
\$	\$ 12,272	\$ 12,272	\$	\$
	(10,321)	(10,321)		
	726	726		
\$	\$ 2,677	\$ 2,677	\$	\$
\$ (688,331)	\$ 2,677	\$ (685,654)	\$	\$
\$	\$	\$	\$ (397,662)	\$
				(5,097)
\$	\$	\$	\$ (397,662)	\$ (5,097)
\$ 365,978	\$	\$ 365,978	\$ 822,456	\$ 4,824
132,716		132,716		
33,154	76,807	109,961	101,291	38
20,651		20,651	33,000	
5,155	244	5,399	1,771	266
\$ 557,654	\$ 77,051	\$ 634,705	\$ 958,518	\$ 5,128
\$ 91,819	\$ (91,819)	\$	\$	\$
(66,203)		(66,203)		
\$ 25,616	\$ (91,819)	\$ (66,203)	\$	\$
\$ (105,061)	\$ (12,091)	\$ (117,152)	\$ 560,856	\$ 31
1,855,042	2,873,803	4,728,845	4,357,974	10,224
\$ 1,749,981	\$ 2,861,712	\$ 4,611,693	\$ 4,918,830	\$ 10,255

CITY OF LITCHFIELD, MICHIGAN
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008

	MAJOR FUNDS			TOTAL GOVERNMENTAL FUNDS
	GENERAL	MAJOR STREET	LOCAL STREET	
ASSETS				
Cash and investments	\$ 210,607	\$ 343,590	\$ 22,056	\$ 576,253
Accounts receivable	2,285			2,285
Interest receivable	197	114	35	346
Due from other governmental units	90,502	14,202	4,488	109,192
Prepaid expense	2,460			2,460
TOTAL ASSETS	<u>\$ 306,051</u>	<u>\$ 357,906</u>	<u>\$ 26,579</u>	<u>\$ 690,536</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 13,636	\$ 5,551	\$ 1,200	\$ 20,387
Accrued liabilities	16,232			16,232
Total Liabilities	<u>\$ 29,868</u>	<u>\$ 5,551</u>	<u>\$ 1,200</u>	<u>\$ 36,619</u>
Fund Balances:				
Reserved for:				
Police training - state funding	\$ 578	\$	\$	\$ 578
Prepays	2,460			2,460
Board designated for:				
Stage	1,871			1,871
Fire truck	21,100			21,100
Swimming pool	1,733			1,733
Youth golf program	250			250
2008-2009 expenditures over revenues		102,252		102,252
Unreserved, undesignated	248,191	250,103	25,379	523,673
Total Fund Balances	<u>\$ 276,183</u>	<u>\$ 352,355</u>	<u>\$ 25,379</u>	<u>\$ 653,917</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 306,051</u>	<u>\$ 357,906</u>	<u>\$ 26,579</u>	<u>\$ 690,536</u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2008

GOVERNMENTAL FUND BALANCES		\$ 653,917
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, and are not reported in the funds		
The cost of capital assets is	\$ 1,713,035	
Accumulated depreciation is	<u>(457,550)</u>	
		1,255,485
Long-term liabilities are not due and payable in the current period and are not reported in the funds		
Compensated absences		(29,151)
Pension benefit obligation		(361,246)
Internal Service Funds are also included as governmental activities to the extent of activity occurring between governmental funds and the Internal Service Fund		
Assets:		
Cash	\$ 124,294	
Prepaid expense	24	
The cost of the capital assets is	397,975	
Accumulated depreciation is	<u>(168,938)</u>	
		353,355
Liabilities:		
Payables	\$ (119,991)	
Internal balance	<u>(55,551)</u>	
		(175,542)
Investments in joint ventures are included as part of governmental activities		<u>53,163</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 1,749,981</u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2008

	MAJOR FUNDS			TOTAL GOVERNMENTAL FUNDS
	GENERAL	MAJOR STREET	LOCAL STREET	
REVENUES				
Taxes	\$ 365,978	\$	\$	\$ 365,978
State shared revenues	133,540			133,540
State gasoline tax revenue		89,471	27,393	116,864
State grant		5,055		5,055
Charges for services	43,165			43,165
Licenses and permits	9,905			9,905
Fines, fees, and forfeits	3,245			3,245
Community contributions	3,717	735		4,452
Component unit contributions	122,641			122,641
Interest	16,751	14,832	1,571	33,154
Lease revenue	20,651			20,651
Other	5,335			5,335
TOTAL REVENUES	\$ 724,928	\$ 110,093	\$ 28,964	\$ 863,985
EXPENDITURES				
General government	\$ 411,337	\$	\$	\$ 411,337
Public safety	240,080			240,080
Highways and streets		65,937	42,582	108,519
Public works	59,223			59,223
Parks and recreation	74,925			74,925
Capital outlay				
TOTAL EXPENDITURES	\$ 785,565	\$ 65,937	\$ 42,582	\$ 894,084
REVENUES OVER (UNDER) EXPENDITURES	\$ (60,637)	\$ 44,156	\$ (13,618)	\$ (30,099)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 114,690	\$	\$	\$ 114,690
Operating transfers out	(400)	(7,000)	(2,100)	(9,500)
TOTAL OTHER FINANCING SOURCES (USES)	\$ 114,290	\$ (7,000)	\$ (2,100)	\$ 105,190
SPECIAL ITEM				
Property tax payments	\$ (66,203)	\$	\$	\$ (66,203)
NET CHANGE IN FUND BALANCE	\$ (12,550)	\$ 37,156	\$ (15,718)	\$ 8,888
FUND BALANCES - BEGINNING	288,733	315,199	41,097	645,029
FUND BALANCES - END OF YEAR	\$ 276,183	\$ 352,355	\$ 25,379	\$ 653,917

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 8,888

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, and in the statement of activities these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(39,091)
Capital expenditures	129,115

Net income from joint venture is not recorded in the governmental funds, but is recorded in the statement of activities	8,204
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Actuarial valuation of the pension benefit obligation that results in an increase in the obligation is not recorded in the governmental funds, but is recorded in the governmental activities as an increase in current year contributions	(238,688)
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Net changes in accumulated employee sick and vacation pay are recorded when incurred in the statement of activities	13,443
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Internal Service Funds are also included as governmental activities to the extent of activity occurring between governmental funds and the Internal Service Fund	15,748
--	--------

Included in governmental activities is an expenditure for the forgiveness of the current amount due from a local industrial corporation on a long-term note receivable. Where as, governmental funds recognize revenue and expenditures when cash is either collected or disbursed	(2,500)
--	---------

Cash collections on delinquent sidewalk receivables are included in the governmental funds, but are not included in revenues in the governmental activities	(180)
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (105,061)</u>
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See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2008

	ENTERPRISE FUNDS				INTERNAL SERVICE FUND
	MAJOR FUNDS				NONMAJOR FUND
	SEWER	WATER	REFUSE	TOTAL	EQUIPMENT
ASSETS					
Current Assets					
Cash and investments	\$ 921,850	\$ 376,331	\$ 14,649	\$ 1,312,830	\$ 124,294
Accounts receivables	1,036	952	1,807	3,795	
Due from other governmental units	245	1,567		1,812	
Interest receivable	2,358	47		2,405	
Interfund receivable	103,500			103,500	
Prepaid expense	24	24		48	24
Inventory		21,933		21,933	
Total Current Assets	<u>\$ 1,029,013</u>	<u>\$ 400,854</u>	<u>\$ 16,456</u>	<u>\$ 1,446,323</u>	<u>\$ 124,318</u>
Noncurrent Assets					
Capital assets	\$ 4,314,347	\$ 1,917,262	\$	\$ 6,231,609	\$ 397,975
Accumulated depreciation	(3,048,144)	(1,053,193)		(4,101,337)	(168,938)
Total Noncurrent Assets	<u>\$ 1,266,203</u>	<u>\$ 864,069</u>	<u>\$</u>	<u>\$ 2,130,272</u>	<u>\$ 229,037</u>
TOTAL ASSETS	<u><u>\$ 2,295,216</u></u>	<u><u>\$ 1,264,923</u></u>	<u><u>\$ 16,456</u></u>	<u><u>\$ 3,576,595</u></u>	<u><u>\$ 353,355</u></u>
LIABILITIES AND NET ASSETS					
Current Liabilities					
Long-term debt, current portion	\$ 125,000	\$ 3,600	\$ 2,702	\$ 125,000	\$ 5,908
Accounts payable	17,000			23,302	103,500
Interfund payable					10,583
Accrued liabilities	28,539	31,673	8,545	68,757	
Accrued interest	3,375			3,375	
Total Current Liabilities	<u>\$ 173,914</u>	<u>\$ 35,273</u>	<u>\$ 11,247</u>	<u>\$ 220,434</u>	<u>\$ 119,991</u>
Noncurrent Liabilities					
Long-term debt, net of current portion	<u>\$ 550,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 550,000</u>	<u>\$</u>
Total Liabilities	<u>\$ 723,914</u>	<u>\$ 35,273</u>	<u>\$ 11,247</u>	<u>\$ 770,434</u>	<u>\$ 119,991</u>
Net Assets					
Invested in capital assets, net of related debt	\$ 591,203	\$ 864,069	\$	\$ 1,455,272	\$ 125,537
Restricted for bond repayment	113,628			113,628	
Unrestricted, undesignated	866,471	365,581	5,209	1,237,261	107,827
Total Net Assets	<u>\$ 1,571,302</u>	<u>\$ 1,229,650</u>	<u>\$ 5,209</u>	<u>\$ 2,806,161</u>	<u>\$ 233,364</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,295,216</u></u>	<u><u>\$ 1,264,923</u></u>	<u><u>\$ 16,456</u></u>	<u><u>\$ 3,576,595</u></u>	<u><u>\$ 353,355</u></u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN
RECONCILIATION OF ENTERPRISE FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2008

ENTERPRISE FUND NET ASSETS	\$ 2,806,161
Amounts reported for business activities in the statement of net assets are different because:	
Internal Service Funds are also included as business activities to the extent of activity occurring between Enterprise Funds and the Internal Service Fund	<u>55,551</u>
NET ASSETS OF BUSINESS-TYPE ACTIVITIES	<u><u>\$ 2,861,712</u></u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 YEAR ENDED JUNE 30, 2008

	ENTERPRISE FUNDS				INTERNAL SERVICE FUND
	MAJOR FUNDS				NONMAJOR FUND
	SEWER	WATER	REFUSE	TOTAL	EQUIPMENT
OPERATING REVENUES					
Charges for services	\$ 99,800	\$ 157,332	\$ 77,915	\$ 335,047	\$ 143,199
OPERATING EXPENSES					
General operations and maintenance	\$ 126,050	\$ 113,983	\$ 82,374	\$ 322,407	\$ 98,436
Depreciation	102,060	59,849		161,909	24,530
TOTAL OPERATING EXPENSES	\$ 228,110	\$ 173,832	\$ 82,374	\$ 484,316	\$ 122,966
OPERATING INCOME (LOSS)	\$ (128,310)	\$ (16,500)	\$ (4,459)	\$ (149,269)	\$ 20,233
NON-OPERATING REVENUES (EXPENSES)					
Interest income	\$ 57,411	\$ 18,526	\$ 869	\$ 76,806	\$ 4,780
Other revenue					2,786
Interest expense	(15,300)			(15,300)	
Contributions	150,245	1,567		151,812	17,000
TOTAL NET NON-OPERATING REVENUES	\$ 192,356	\$ 20,093	\$ 869	\$ 213,318	\$ 24,566
INCOME BEFORE OPERATING TRANSFERS	\$ 64,046	\$ 3,593	\$ (3,590)	\$ 64,049	\$ 44,799
OPERATING TRANSFERS					
Operating transfers in	\$ 100	\$ 300	\$	\$ 400	\$
Operating transfers out	(37,640)	(37,640)	(12,549)	(87,829)	(17,762)
TOTAL NET OPERATING TRANSFERS	\$ (37,540)	\$ (37,340)	\$ (12,549)	\$ (87,429)	\$ (17,762)
NET INCOME (LOSS)	\$ 26,506	\$ (33,747)	\$ (16,139)	\$ (23,380)	\$ 27,037
NET ASSETS - BEGINNING OF YEAR	1,544,796	1,263,397	21,348	2,829,541	206,327
NET ASSETS - END OF YEAR	\$ 1,571,302	\$ 1,229,650	\$ 5,209	\$ 2,806,161	\$ 233,364

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

NET CHANGE IN NET ASSETS - TOTAL ENTERPRISE FUNDS	\$ (23,380)
Amounts reported for business activities in the statement of activities are different because:	
Internal Service Funds are also included as business activities to the extent of activity occurring between Enterprise Funds and the Internal Service Fund	<u>11,289</u>
CHANGE IN NET ASSETS OF BUSINESS ACTIVITIES	<u><u>\$ (12,091)</u></u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2008

	ENTERPRISE FUNDS	
	MAJOR FUND	
	SEWER	WATER
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 100,510	\$ 157,034
Cash receipts for interfund services provided		
Payments to employees	(30,946)	(33,462)
Payments to suppliers	(47,386)	(50,312)
Payments to interfund services provided	(15,698)	(12,013)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 6,480	\$ 61,247
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contribution from component unit	\$ 150,245	\$ 1,567
Transfer from other funds	100	300
Loans to other funds	(103,500)	
Transfer to other funds	(37,640)	(37,640)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	\$ 9,205	\$ (35,773)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid on capital debt	\$ (15,900)	\$
Principal paid on capital debt	(120,000)	
Proceeds from sale of equipment		
Purchase of capital assets	(22,676)	(37,587)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (158,576)	\$ (37,587)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	\$ 58,229	\$ 20,133
NET CHANGE IN CASH	\$ (84,662)	\$ 8,020
CASH AND INVESTMENTS - BEGINNING OF YEAR	1,006,757	369,878
CASH AND INVESTMENTS - END OF YEAR	\$ 922,095	\$ 377,898
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (128,310)	\$ (16,500)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	\$ 102,060	\$ 59,849
Loss on sale of property	600	
(Increase) decrease in		
Accounts receivable	712	395
Prepaid expense	(24)	(24)
Inventory		(1,239)
Increase (decrease) in		
Accrued liabilities	15,763	15,844
Accounts payable	15,679	2,922
Total Adjustments	\$ 134,790	\$ 77,747
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 6,480	\$ 61,247

See accompanying notes to the basic financial statements.

ENTERPRISE FUNDS		INTERNAL SERVICE FUND
MAJOR FUND		NONMAJOR FUND
REFUSE	TOTAL	EQUIPMENT
\$ 79,557	\$ 337,101	\$ 143,199
(8,617)	(73,025)	(10,878)
(50,552)	(148,250)	(74,500)
(15,213)	(42,924)	
\$ 5,175	\$ 72,902	\$ 57,821
\$	\$ 151,812	\$ 17,000
	400	103,500
	(103,500)	
(12,549)	(87,829)	(17,762)
\$ (12,549)	\$ (39,117)	\$ 102,738
\$	\$ (15,900)	\$
	(120,000)	2,770
	(60,263)	(145,718)
\$	\$ (196,163)	\$ (142,948)
\$ 868	\$ 79,230	\$ 5,005
\$ (6,506)	\$ (83,148)	\$ 22,616
21,155	1,397,790	101,678
\$ 14,649	\$ 1,314,642	\$ 124,294
\$ (4,459)	\$ (149,269)	\$ 20,233
\$	\$ 161,909	\$ 24,530
	600	
1,641	2,748	(24)
	(48)	
	(1,239)	
	31,607	7,369
7,993	26,594	5,713
\$ 9,634	\$ 222,171	\$ 37,588
\$ 5,175	\$ 72,902	\$ 57,821

CITY OF LITCHFIELD, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Litchfield, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FINANCIAL REPORTING ENTITY

On June 1, 1970, the City of Litchfield, Michigan (the "City") adopted the Home Rule Charter. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: Public Safety (Police and Fire), Highways and Streets, Sanitation, Recreation, Public Improvements, Planning and Zoning, and General Administrative Services.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

In conformity with generally accepted accounting principles, the financial statements of the component units have been included in the financial reporting entity as discretely presented component units.

Discretely Presented Component Units - The component unit columns in the basic financial statements include the financial data of the City's component units. The units are reported in a separate column to emphasize they are legally separate from the City.

Tax Increment Finance Authority (TIFA) - The Authority is governed by a separate board appointed by the City Council to promote economic growth in the City of Litchfield.

Downtown Development Authority - The Authority is governed by a separate board appointed by the City Council to formulate plans for design, promotion and organization, and economic restructuring of the City's downtown area.

Brownsfield Redevelopment Authority (BRA) - The Authority was established under the provisions contained in Act 381, of the Michigan Public Acts of 1996, as amended. The Authority is governed by a separate board appointed by the City Council to facilitate the implementation of plans relating to the identification and treatment of environmentally distressed areas so as to promote revitalization in the City of Litchfield. The basic financial statements do not include financial data of the Brownsfield Redevelopment Authority since it did not have any financial transactions during the year ended June 30, 2008.

Copies of the TIFA and DDA financial statements may be obtained at the City offices located at 221 Jonesville Street, Litchfield, Michigan 49252.

ECONOMIC DEPENDENCY

The City is economically dependent on the State of Michigan for State-shared revenues. Absent allocations from the State would result in operating expenditures exceeding revenues in the General, Major and Local Street Funds. Furthermore, the aforementioned funds would be in a deficit position within a one to two year period continuing the services the City currently offers.

CITY OF LITCHFIELD, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government and its component units. The effect of inter-fund activity has been eliminated from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities rely on user fees and charges.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When expenses are incurred for purposes for which both restricted and unrestricted net assets are available, restricted net assets are used prior to unrestricted net assets.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and State-shared revenues. All other revenue items are considered to be available only when cash is received by the City.

CITY OF LITCHFIELD, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL
STATEMENT PRESENTATION (CONTINUED)

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major and Local Street Funds* are Special Revenue Funds that account for revenue received from gasoline tax through the State of Michigan under Act 51. Expenditures of these funds include the maintenance of major and local streets, and roadway improvements.

Proprietary Funds

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. The City maintains two proprietary fund types, enterprise and internal service funds.

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City reports the following major enterprise funds:

The *Water and Sewer Funds* account for the activities of the water distribution and sewage collection systems.

The *Refuse Fund* accounts for solid waste disposal billings and operating expenses.

The City's *Internal Service Equipment Fund* accounts for shared machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis. This fund accounted for 35% and 65% of its activity with business-type and governmental activities, respectively. As a result, the assets and equity were reported in governmental activities and the net profit was allocated on a pro rata basis, based on the aforementioned percentages, to each of the activities. Business-type and governmental activities reported net profit of \$11,289 and \$15,748, respectively, for a total net profit of \$27,037. Therefore, the Internal Service Fund's net assets in the total amount of \$233,364 is reported in the business-type and governmental activities in the amounts of \$55,551 and \$177,813, respectively.

Fiduciary Funds (Not included in government-wide statements)

Fiduciary Funds are used to account for assets held in a trustee or agency capacity for others and therefore are not available to support City operations. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are not included in the government-wide statements. The City presently collects and distributes property taxes on behalf of and to other local units of government.

CITY OF LITCHFIELD, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL
STATEMENT PRESENTATION (CONCLUDED)

General Information

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort costs and program revenues reported for the various functions concerned.

BANK DEPOSITS AND INVESTMENTS

Cash includes cash on hand, demand deposits, savings, and certificate of deposits. Investments include municipal mutual funds and municipal investment pools that are highly liquid.

RECEIVABLES AND PAYABLES

Outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "interfund payables/receivables." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are reported at their net realizable values.

INVENTORY

Inventories are comprised of water supplies that are valued at the lower of cost or market.

CAPITAL ASSETS

Capital assets that include land, buildings, improvements, equipment and vehicles are reported in the government-wide financial statements. The City defines capital assets as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of 2 years. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend assets life are not capitalized but rather expensed in the period incurred.

The City has elected under Governmental Accounting Standards Board Statement No. 34 not to report infrastructure retrospectively. Newly acquired or constructed infrastructure will be capitalized and depreciated over their useful lives.

CITY OF LITCHFIELD, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS (CONCLUDED)

Buildings, improvements, equipment and vehicles are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Improvements	10 - 20
Equipment	3 - 20
Vehicles	3 - 5

COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned but unused sick and vacation leave time. A total of 5 to 25 days vacation and 6 days of sick leave per year may be accumulated by each employee. Employees are allowed to accumulate and carry over ten vacation days to the following year with management approval. Otherwise vacation time not used is forfeited.

Furthermore, employees are allowed to accumulate no more than sixty days of sick leave time. Upon termination of employment, if an employee has five consecutive years or more of employment service the employee will be paid one-fourth of their accumulated unused sick leave time. Employees with ten consecutive years or more of employment service will be paid one-half of their accumulated unused sick leave time upon termination. Upon retirement, an employee will receive pay at their regular hourly rate for a maximum thirty days of accumulated unused sick leave time.

During the year the net decrease in compensated absences was \$13,443 leaving an ending balance of \$29,151.

LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF LITCHFIELD, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

PROPERTY TAX

The City of Litchfield, Michigan bills and collects property taxes and distributes them to other local units of government. Properties are assessed as of December 31, and the related property taxes are levied and become payable on July 1 of the following year for summer taxes and December 1 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 14, respectively. Delinquent real property taxes are turned over to the County and added to the County tax roll. The County remits all of the City's uncollected delinquent real property tax to the City by June 30. Uncollected personal property taxes are not accrued because the date of collection is uncertain.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ENCUMBRANCE ACCOUNTING

Encumbrances for goods and services are documented by requisitions or contracts. Appropriations lapse at June 30 and any encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2008.

BUDGETS AND BUDGETARY ACCOUNTING

The City's procedures in establishing the budgetary data reflected in the financial statements are as follows:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that change the total expenditures of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles, which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved or as amended by the City Council. The General Fund budget is adopted at the department level and all other funds are adopted at the fund level.

CITY OF LITCHFIELD, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 2: JOINT VENTURE

The City participates with the Litchfield Township in the Litchfield Fire Department (the "Department"), a joint venture pursuant to an agreement entered into between both parties. In accordance with the provisions of Governmental Accounting Standards Board No. 14, the joint venture results from the ongoing financial responsibility of the Department's operations agreed to by the aforementioned municipalities pursuant to the contractual agreement. A seven member Board of Directors comprised of two members of the City of Litchfield Council, two members of Litchfield Township Board, one member of Scipio Township and Butler Township Boards, and one member from the community at large govern the Department.

Either the City or Litchfield Township has the power to terminate the joint venture. However, notice of termination must be given six months prior to the Department's fiscal year-end. Upon termination, all property of the Litchfield Fire Department will be liquidated and any outstanding indebtedness will be paid. The proceeds then remaining will be divided equally between the City of Litchfield, Michigan and the Litchfield Township.

The Department is funded by fire contracts with local townships and equal contributions made by the City of Litchfield, Michigan and the Litchfield Township. The Fire Department reported revenues in excess of expenditures in the amount of \$24,156 in its year ended June 30, 2008 audited financial statements. The City of Litchfield, Michigan reported an \$8,204 increase to net assets in its governmental activities on the government-wide financial statements for the Department's operating activity; fifty-percent of the \$24,156 of revenues over expenditures less \$3,874 for a change in a prior year estimate. The City's investment in the joint venture is reported in the statement of net assets under governmental activities in the amount of \$53,163. The Fire Department did not engage the City's auditors to audit the Department's financial statements. Copies of the Fire Department's audited financial statements may be obtained at the City of Litchfield, Michigan offices.

NOTE 3: BANK DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

At year end, deposits and investments were comprised of the following:

	Governmental Activities	Business Activities	Total Primary Government	Component Units
Cash	\$ 529,672	\$ 1,055,591	\$ 1,585,263	\$ 2,299,505
Cash – restricted	578	113,628	114,206	
	<u>\$ 530,250</u>	<u>\$ 1,169,219</u>	<u>\$ 1,699,469</u>	<u>\$ 2,299,505</u>
Investments	\$ 170,297	\$ 143,611	\$ 313,908	\$ 224,286
Total	<u>\$ 700,547</u>	<u>\$ 1,312,830</u>	<u>\$ 2,013,377</u>	<u>\$ 2,523,791</u>

CITY OF LITCHFIELD, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 3: BANK DEPOSITS AND INVESTMENTS (CONCLUDED)

The breakdown between cash and investments for the City and component units are as follows:

	Primary Government	Component Units
Cash (checking accounts, savings accounts and Certificates of Deposits)	\$ 1,699,369	\$ 2,299,505
Investment in money market fund		224,286
Investment in municipal investment pool	313,908	
Petty cash	100	
Total	<u>\$ 2,013,377</u>	<u>\$ 2,523,791</u>

Deposits

The City and its component unit's deposits were reflected in the accounts of the financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at \$4,538,219. Of that amount, \$1,700,800 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. In October 2008, Congress approved an increase in FDIC coverage from \$100,000 to \$250,000 per deposit type per financial institution that expires January 2010.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories.

Investments

Investments are normally categorized to give an indication of the level of risk assumed by the City. As of June 30, 2008, the City and its component unit, the Tax Increment Financing Authority, investments were rated AAA/V1 by Fitch Ratings-New York and AAA by Standard & Poor's rating service, respectively. Additionally, there is no custodial risk because the fund is not evidenced by securities that exist in physical or book entry form. The investment policy adopted by the City Council is in accordance with Public Act 196 of 1997.

NOTE 4: NOTE RECEIVABLE

In January 1997 the City entered into an agreement to sell land to a local industrial company in the amount of \$50,000. The terms of the agreement require the local company to pay \$5,000 annually, including interest at 10%. However, if the local company achieves employment levels annually as stated in the agreement the City will forgive the annual principal payments, including interest, each year employment levels are met. During the year the City forgave the remaining principal balance of \$2,500.

CITY OF LITCHFIELD, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 5: OPERATING LEASE

In fiscal year 2004 the City entered into a lease agreement to lease City owned farmland to a local individual. The terms of the lease require the individual to pay the City \$5,385 annually, through April 1, 2009, at which time the lease is scheduled to terminate.

NOTE 6: CAPITAL ASSETS

Capital asset activity of the primary government was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2008</u>
Capital assets not being depreciated:				
Land	\$ 866,073	\$	\$	\$ 866,073
Construction in progress		29,812		29,812
Capital assets being depreciated:				
Land improvements		63,947		63,947
Buildings and improvements	356,044			356,044
Equipment	562,107	123,647		685,754
Vehicles	49,040	22,070	20,040	51,070
Technology	24,954		2,000	22,954
Streets		35,356		35,356
Subtotal	<u>\$ 1,858,218</u>	<u>\$ 274,832</u>	<u>\$ 22,040</u>	<u>\$ 2,111,010</u>
Accumulated depreciation:				
Land improvements	\$	\$ 2,931	\$	\$ 2,931
Buildings and improvements	204,455	7,296		211,751
Equipment	313,440	38,573		352,013
Vehicles	47,040	5,862	20,040	32,862
Technology	19,973	3,591	2,000	21,564
Streets		5,367		5,367
Subtotal	<u>\$ 584,908</u>	<u>\$ 63,620</u>	<u>\$ 22,040</u>	<u>\$ 626,488</u>
Net Capital Assets	<u>\$ 1,273,310</u>	<u>\$ 211,212</u>	<u>\$</u>	<u>\$ 1,484,522</u>

Governmental activities depreciation expense of \$63,620 is comprised of unallocated and allocated depreciation expense of \$39,091 and \$24,529, respectively. Allocated depreciation is calculated on capital assets maintained in the Internal Service Equipment Fund. Unallocated depreciation is comprised of two components reported on a separate line item in the statement of activities: \$33,724 for general assets and \$5,367 for streets. See significant accounting policies regarding Internal Service Funds.

CITY OF LITCHFIELD, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 6: CAPITAL ASSETS (CONCLUDED)

<u>Business-type Activities</u>	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2008</u>
Capital assets not being depreciated:				
Land	\$ 279,190	\$	\$ 600	\$ 278,590
Construction in progress		6,619		6,619
Capital assets being depreciated:				
Water and sewer distribution system	5,869,854	53,646		5,923,500
Vehicles	22,900			22,900
Subtotal	<u>\$ 6,171,944</u>	<u>\$ 60,265</u>	<u>\$ 600</u>	<u>\$ 6,231,609</u>
Accumulated depreciation:				
Water and sewer distribution system	\$ 3,923,016	\$ 157,329	\$	\$ 4,080,345
Vehicles	16,412	4,580		20,992
Subtotal	<u>\$ 3,939,428</u>	<u>\$ 161,909</u>	<u>\$</u>	<u>\$ 4,101,337</u>
Net Capital Assets	<u>\$ 2,232,516</u>	<u>\$ (101,644)</u>	<u>\$ (600)</u>	<u>\$ 2,130,272</u>

Depreciation expense charged to business-type activities was \$161,909.

NOTE 7: LONG-TERM DEBT

Long-term debt at June 30, 2008 is comprised of the following:

Revenue Bonds, \$2,190,000 Michigau State Revolving Loan due in annual installments of \$25,000 to \$135,000 at an annual interest rate of 2% through April 1, 2014	<u>\$ 675,000</u>
Less: current portion of long-term debt	<u>125,000</u>
TOTAL LONG-TERM DEBT	<u>\$ 550,000</u>

The following is a summary of changes in long-term debt:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>
<u>Business-type Activities</u>				
Revenue bonds	<u>\$ 795,000</u>	<u>\$</u>	<u>\$ 120,000</u>	<u>\$ 675,000</u>

CITY OF LITCHFIELD, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 7: LONG-TERM DEBT (CONCLUDED)

Interest expense incurred during the year totaled \$15,300 and is reported as a direct function expense. Cash paid for interest during the year totaled \$15,900.

The following is a schedule of principal and interest maturities:

	Business-type Activities		
	Principal	Interest	Total
2009	\$ 125,000	\$ 13,500	\$ 138,500
2010	125,000	11,000	136,000
2011	130,000	8,500	138,500
2012	130,000	5,900	135,900
2013-2014	165,000	3,900	168,900
	<u>\$ 675,000</u>	<u>\$ 42,800</u>	<u>\$ 717,800</u>

NOTE 8: INTERFUND PAYABLE/RECEIVABLE

During the year, City Council passed a resolution authorizing a loan in the amount of \$138,000 from the Sewer Fund to the Internal Service Equipment Fund for the acquisition of a dump truck and police car. The loan is required to be repaid in equal installments of \$34,500 over four years through December 31, 2010, interest free. At June 30, 2008, the outstanding balance between the funds totaled \$103,500.

NOTE 9: COMPONENT UNIT CONTRIBUTIONS

During the year the City of Litchfield's Tax Increment Financing Authority (TIFA) contributed \$291,453 to the City's operations to support the following activities:

General Fund

Reinburse City for administration cost	\$ 33,000
Fire support to the industrial park	25,000
Support for downtown enhancement	64,641
	<u>\$ 122,641</u>

Internal Service Equipment Fund

Capital support for equipment replacement and land maintenance	<u>\$ 17,000</u>
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Sewer Fund

Support towards bond obligation	\$ 150,000
Support for downtown enhancement	245
	<u>\$ 150,245</u>

Water Fund

Support for downtown enhancement	<u>\$ 1,567</u>
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CITY OF LITCHFIELD, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 10: OPERATING TRANSFERS

Interfund transfers for the current year are as follows:

General Fund Activity

Transfers in to:

General Fund
General Fund
General Fund
General Fund
General Fund
General Fund

Transfers (out) of:

Major Street Fund \$ 7,000
Local Street Fund 2,100
Refuse Fund 12,549
Sewer Fund 37,640
Water Fund 37,640
Equipment Fund 17,761

Total

\$ 114,690

Water Fund Activity

Transfers in to:

Water Fund

Transfers (out) of:

General Fund \$ 300

Sewer Fund Activity

Transfers in to:

Sewer Fund

Transfers (out) of:

General Fund \$ 100

Transfers from the General Fund to other funds are to support the operations of those funds. Transfers from other funds to the General Fund are reimbursements for administration support.

Transfer from the General Fund to the Water Fund is reimbursement for water usage in the City's swimming pool.

Transfer from the General Fund to the Sewer Fund is for reimbursement for sewer usage at the City building.

NOTE 11: RETIREMENT PLAN

Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple employer plan administered by the Retirement Board of MERS. The Plan provides retirement, disability and death benefits to Plan members and beneficiaries. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917, or by calling (800) 767-6377.

CITY OF LITCHFIELD, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 11: RETIREMENT PLAN (CONTINUED)

Funding Policy

The City's annual contribution requirement is 10.54% and .73% of participating employee's covered payroll effective July 1, 2009 and 2008, respectively. Participating employees are required to contribute 5.00% of their annual covered payroll. These contribution percentages are based on the actuarial valuation date as of December 31, 2007. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adopted by the City.

Funding Progress

The required contribution was determined as part of the December 31, 2007 actuarial valuation using the entry age normal actuarial method. The significant actuarial assumptions used include (a) a rate of return of the investment of present and future assets of 8%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to longevity and merit.

Information related to funding of the pension benefit obligation as of December 31, 2007 actuarial valuation is as follows:

Pension Benefit Obligation

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 182,946
Non-vested terminated employees	6,822
Current employees –	
Accumulated employee contributions	239,032
including allocated investment income	
Employer financed	<u>505,731</u>
Total Actuarial Accrued Liability (AAL)	\$ 934,531
Net assets available for benefits at actuarial value (market value is \$499,706)	<u>493,944</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 440,587</u>

The actuarial value of MERS assets was determined on the basis of a method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at December 31, 2007 was 28 years.

CITY OF LITCHFIELD, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 11: RETIREMENT PLAN (CONCLUDED)

Trend Information

YEAR ENDED JUNE 30,	PENSION COST (APC)	PERCENTAGE CONTRIBUTED	NET PENSION OBLIGATION
2007	\$ -	N/A	\$ -
2008	-	N/A	-

Information is not available at this time

The required supplementary information (see table of contents) contained in the additional information is designed to provide information about the plan's progress in accumulating sufficient assets to pay benefits when due.

NOTE 12: CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, City management does not believe such disallowances, if any, would be material to the financial position of the City.

As is the case with other entities, the City faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2008.

NOTE 13: RISK MANAGEMENT

The City of Litchfield, Michigan is exposed to various risks of loss related to property loss, torts, errors, and omissions, employee injuries, unemployment benefits, as well as medical and workmen's compensation benefits provided to employees. The City of Litchfield, Michigan has purchased commercial insurance for general liability on buildings and property, equipment damage and theft, employee theft, and limited tort claims for specific City of Litchfield, Michigan facilities or events.

The City participates in the Michigan Municipal League Workers Compensation Fund, a public risk pool established to operate a common risk management and insurance program for municipalities. The City pays premiums to the Fund for its workers' disability compensation insurance coverage. The agreement for formation of the fund provides that the Fund will be self-sustaining through member premiums.

The City continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

CITY OF LITCHFIELD, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

JUNE 30, 2008

NOTE 14: SPECIAL ITEM

The City paid \$66,203 to return personal property taxes paid by a local manufacturing company, that included penalties and interest, related to adjustments ordered by the State of Michigan Tax Commission. Two local units of government are obligated to remit the amount paid by the City upon a completed reconciliation of their respective shares. However, the dollar amounts have not been clearly identifiable nor has there been an agreement reached as to the amounts owed by the units. Therefore, the return of personal property taxes paid by the City has not been reported in the City's government-wide financial statements as an amount to be received from other local units of government.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LITCHFIELD, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL BUDGET TO ACTUAL
REVENUE				
Taxes	\$ 404,175	\$ 378,224	\$ 365,978	\$ (12,246)
State shared revenues	131,300	131,800	133,540	1,740
State grant				
Charges for services	39,550	42,930	43,165	235
Licenses and permits	9,150	9,150	9,905	755
Fines, fees, and forfeits	650	2,650	3,245	595
Community contributions		1,375	3,717	2,342
Component unit contributions	133,000	124,641	122,641	(2,000)
Interest	15,000	15,000	16,751	1,751
Lease revenue	20,566	20,566	20,651	85
Other			5,335	5,335
TOTAL REVENUES	<u>\$ 753,391</u>	<u>\$ 726,336</u>	<u>\$ 724,928</u>	<u>\$ (1,408)</u>
EXPENDITURES				
General government	\$ 430,715	\$ 421,485	\$ 411,337	\$ 10,148
Public safety	281,615	248,895	240,080	8,815
Public works	50,208	67,675	59,223	8,452
Parks and recreation	79,923	84,416	74,925	9,491
Capital outlay				
TOTAL EXPENDITURES	<u>\$ 842,461</u>	<u>\$ 822,471</u>	<u>\$ 785,565</u>	<u>\$ 36,906</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (89,070)</u>	<u>\$ (96,135)</u>	<u>\$ (60,637)</u>	<u>\$ 35,498</u>
OTHER FINANCIAL SOURCES (USES)				
Operating transfers in	\$ 90,958	\$ 116,931	\$ 114,690	\$ (2,241)
Operating transfers (out)	(400)	(400)	(400)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 90,558</u>	<u>\$ 116,531</u>	<u>\$ 114,290</u>	<u>\$ (2,241)</u>
EXTRAORDINARY ITEM				
Property tax payments	\$	\$ (134,078)	\$ (66,203)	\$ 67,875
NET CHANGE IN FUND BALANCE	\$ 1,488	\$ (113,682)	\$ (12,550)	\$ 101,132
FUND BALANCE - BEGINNING OF YEAR	<u>288,733</u>	<u>288,733</u>	<u>288,733</u>	
FUND BALANCE - END OF YEAR	<u>\$ 290,221</u>	<u>\$ 175,051</u>	<u>\$ 276,183</u>	<u>\$ 101,132</u>

CITY OF LITCHFIELD, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE -
MAJOR SPECIAL REVENUE FUND -
MAJOR STREET

YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL BUDGET TO ACTUAL
REVENUE				
State gasoline tax revenue	\$ 94,902	\$ 93,305	\$ 89,471	\$ (3,834)
State grant	2,480	2,480	5,055	2,575
Community contributions			735	735
Interest	5,000	13,000	14,832	1,832
TOTAL REVENUES	<u>\$ 102,382</u>	<u>\$ 108,785</u>	<u>\$ 110,093</u>	<u>\$ 1,308</u>
EXPENDITURES				
Road maintenance	\$ 39,232	\$ 97,632	\$ 52,887	\$ 44,745
Road construction	41,000	30,452	12,550	17,902
Administration	500	500	500	
TOTAL EXPENDITURES	<u>\$ 80,732</u>	<u>\$ 128,584</u>	<u>\$ 65,937</u>	<u>\$ 62,647</u>
REVENUES OVER EXPENDITURES	<u>\$ 21,650</u>	<u>\$ (19,799)</u>	<u>\$ 44,156</u>	<u>\$ 63,955</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	\$ (21,650)	\$ (44,500)	\$ (7,000)	37,500
NET CHANGE IN FUND BALANCE	\$	\$ (64,299)	\$ 37,156	\$ 101,455
FUND BALANCE - BEGINNING OF YEAR	<u>315,199</u>	<u>315,199</u>	<u>315,199</u>	
FUND BALANCE - END OF YEAR	<u>\$ 315,199</u>	<u>\$ 250,900</u>	<u>\$ 352,355</u>	<u>\$ 101,455</u>

CITY OF LITCHFIELD, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE -
MAJOR SPECIAL REVENUE FUND -
LOCAL STREET

YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL BUDGET TO ACTUAL
REVENUE				
State gasoline tax revenue	\$ 27,324	\$ 25,870	\$ 27,393	\$ 1,523
State grant	2,480	2,480		(2,480)
Interest	800	800	1,571	771
TOTAL REVENUES	<u>\$ 30,604</u>	<u>\$ 29,150</u>	<u>\$ 28,964</u>	<u>\$ (186)</u>
EXPENDITURES				
Road maintenance	\$ 21,948	\$ 45,304	\$ 42,307	\$ 2,997
Road construction	30,000			
Administration	275	275	275	
TOTAL EXPENDITURES	<u>\$ 52,223</u>	<u>\$ 45,579</u>	<u>\$ 42,582</u>	<u>\$ 2,997</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (21,619)</u>	<u>\$ (16,429)</u>	<u>\$ (13,618)</u>	<u>\$ 2,811</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 14,150	\$ 37,000	\$	\$ (37,000)
Operating transfers (out)	(2,500)	(2,500)	(2,100)	400
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 11,650</u>	<u>\$ 34,500</u>	<u>\$ (2,100)</u>	<u>\$ (36,600)</u>
NET CHANGE IN FUND BALANCE	\$ (9,969)	\$ 18,071	\$ (15,718)	\$ (33,789)
FUND BALANCE - BEGINNING OF YEAR	<u>41,097</u>	<u>41,097</u>	<u>41,097</u>	
FUND BALANCE - END OF YEAR	<u>\$ 31,128</u>	<u>\$ 59,168</u>	<u>\$ 25,379</u>	<u>\$ (33,789)</u>

CITY OF LITCHFIELD, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

RETIREMENT SYSTEM REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

JUNE 30, 2008

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	(a) ACTUARIAL VALUE OF ASSETS	(b) ACTUARIAL ACCRUED LIABILITY (AAL) ENTRY AGE	(b-a) UNFUNDED AAL (UAAL)	FUNDED RATIO TOTAL	(c) COVERED PAYROLL	((b-a)/c) UAAL AS A PERCENTAGE OF COVERED PAYROLL
12/31/07	\$393,684	\$544,991	151,307	72%	\$423,456	36%
12/31/08	\$493,944	934,531	440,587	53%	\$375,701	1.17%

Analysis of the dollar amounts of net assets available for benefits, actuarial accrued liability (AAL) and unfunded "AAL" in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the "AAL" provides one indication of the retirement system's funding status on a continuous basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded "AAL" and annual covered payroll are both affected by inflation. Expressing the unfunded "AAL" as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the retirement system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

OTHER REPORTS



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone: 517/439-9331

FAX: 517/439-1894

GAO GOVERNMENT AUDITING STANDARDS REPORT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council
City of Litchfield
Litchfield, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Litchfield, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City of Litchfield's basic financial statements and have issued our report thereon dated December 18, 2008. We did not audit the financial statements of the Litchfield Fire Department, a joint venture between the City of Litchfield, Michigan and Litchfield Township, Michigan, which the financial statements reflect the City's total share of assets and revenues constituting one percent of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Litchfield Fire Department, a joint venture between the City of Litchfield, Michigan and Litchfield Township, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Litchfield's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Litchfield's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the City Council, management and the State of Michigan. However, this report is a matter of public records and its distribution is not limited.

Oshorne, March, Condon & Co P.C.

Certified Public Accountants

Hillsdale, Michigan
December 18, 2008



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone 517/439-9331

FAX: 517/439-1894

December 18, 2008

City Council
City of Litchfield
221 Jonesville Street
Litchfield, MI 49252

We have audited the financial statements of the City of Litchfield and its component units for the year ended June 30, 2008, and have issued our report thereon dated December 18, 2008. Professional standards require that we provide you with the following information related to our audit.

As stated in our engagement letter dated June 2, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

We performed the audit according to the planned scope and timing previously communicated to you in our itinerary outlining the pertinent dates of the engagement on June 2, 2008.

1. Qualitative Aspects of Accounting Practices

Management has the responsibility for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we have advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Litchfield and its component units are described in Note 1 to the financial statements. Additionally, the application of existing policies was not changed during fiscal year ended June 30, 2008.

Furthermore, we noted no transactions entered into by the City of Litchfield and its component units during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. However, there were monies returned totaling \$66,203 to a local manufacturing company for personal property taxes that included penalties and interest, for adjustments ordered by the State of Michigan Tax Commission, relating to previous tax years.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Accounting estimates can be particularly sensitive because of the significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no accounting estimates that were material to the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City and TIFA's financial statements relate to property taxes as disclosed in Notes 14 and 7, respectively.

2. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit with the exception of the postponement of our audit fieldwork from the originally scheduled week of August 25, 2008 to the week of October 20, 2008.

3. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements with the exception of those attached. In addition, none of the misstatements detected as a result of our audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

4. Disagreements with Management

We are pleased to report that no such disagreements arose during the course of our audit. For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report.

5. Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 18, 2008.

6. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City and its component unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the City of Litchfield and its component unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of City Council and management. It is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

CITY OF LITCHFIELD AND ITS COMPONENT UNITS

SCHEDULE OF UNADJUSTED MISSTATEMENTS

JUNE 30, 2008

Water Fund expenses are understated resulting from a correction made to the reported cost of land for parcels that were incorrectly capitalized initially.

\$ 13,618

Utility revenues are overstated in the Water, Sewer and Refuse Funds resulting from not being recorded as a receivable at June 30, 2007. This results from the practice of recording second quarter billings in July rather than June.

\$ 5,844



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December 18, 2008

City Council
City of Litchfield
221 Jonesville Street
Litchfield, MI 49252

In planning and performing our audit of the financial statements of the City of Litchfield for the year ended June 30, 2008, we considered the City of Litchfield's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of a matter that is an opportunity for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comment and suggestion regarding this matter. This letter does not affect our report dated December 18, 2008, on the financial statements of the City of Litchfield.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the City Manager, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

QUARTERLY RECONCILIATIONS

We recommend, the Treasurer reconcile balance sheet accounts (other than cash, which should continue to be done monthly) and fixed assets on a quarterly basis rather than all at once at the end of the fiscal year as a means to streamline the accounting workload.

INTERNAL CONTROLS

Events in recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental arena, where public accountability is at its highest. The purpose of internal controls (*checks and balances*) is to provide a level of assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly approved and recorded. Any limitations on the effectiveness of internal controls carry with it a greater risk of fraud and/or abuse.

Establishing internal controls is the responsibility of management. External auditors are prohibited by professional standards from performing any management functions, including internal controls. In other words, the annual audit is not a part of the City's internal control structure, and cannot be relied upon as part of management's systems to identify or prevent fraud and/or abuse. Furthermore, we are not responsible for adjusting the City's financial books to accurately report financial information; management is responsible for maintaining an accurate accounting of the City's financial books.

There is always the challenge, and no easy answers, of balancing the costs and benefits of internal controls. However, we encourage management and City Council to actively seek ways to strengthen internal controls as staff are cross-trained to perform multiple functions in the City operations. At times, cross-training can result in a staff person performing all of a function with limited or no checks and balances. Therefore, we recommend, periodic review of checks and balances. Our recommendation does not come as a result of any findings, but rather as a tool to be used toward the continuous efforts of management and Council to make the City of Litchfield a stronger local municipality.